

Message Text

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INFO OCT-01 ISO-00 AGR-05 CEA-01 CIAE-00 COME-00 DODE-00

EB-07 FRB-03 H-01 INR-07 INT-05 L-02 LAB-04 NSAE-00

NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-01 TAR-01

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R 271915Z FEB 75

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TO SECSTATE WASHDC 8377

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DEPT PASS AGRICULTURE; GENEVA PASS US DELEGATION/MTN

E.O. 11652: N/A

TAGS: EAGR, EEC

SUBJECT: STOCKTAKING OF THE CAP

REF: A. EC BRUSSELS 7696 (1974); B. EC BRUSSELS 7697 (1974);

C. BONN 15187 (1974)

1. SUMMARY: BEGIN UNCLASSIFIED. THE EC COMMISSION HAS FINISHED ITS REPORT ON THE "STOCKTAKING" OF THE CAP WHICH IT WAS INSTRUCTED TO PREPARE BY THE COUNCIL IN OCTOBER 1974. THE REPORT, LIKE THE COMMISSION'S

1973 MEMORANDUM ON IMPROVING THE CAP, DOES NOT CONTAIN ANY EARTH-SHAKING IDEAS FOR IMPROVING THE CAP. IT DOES, HOWEVER, INCLUDE SOME PROPOSED INNOVATIONS SUCH AS LONG-TERM SUPPLY CONTRACTS WITH IMPORTING

THIRD COUNTRIES. THE REPORT WILL BE PRESENTED TO THE COUNCIL OF AGRICULTURAL MINISTERS NEXT WEEK, ALTHOUGH IT WAS MADE PUBLIC ON FEBRUARY 27. THE COUNCIL IS NOT LIKELY TO ENTER INTO ANY DEEP DISCUSSIONS ON THIS REPORT UNTIL THE MEMBER STATES HAVE HAD OPPOR-
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TUNITY TO STUDY IT IN DETAIL. THE MISSION WILL BE COMMENTING

SUBSEQUENTLY ON IMPLICATIONS FOR US INTERESTS OF VARIOUS POINTS
IN THE REPORT. END SUMMARY.

2. ON FEBRUARY 26, THE EC COMMISSION APPROVED ITS "STOCKTAKING"
OF THE CAP. THIS REPORT WILL BE FORMALLY PRESENTED BY EC
AGRICULTURE COMMISSIONER LARDINOIS TO THE COUNCIL OF AGRICULTURAL
MINISTERS DURING ITS MARCH 4 MEETING.

3. THIS STOCKTAKING EXERCISE IS A DIRECT OUTGROWTH OF THE GERMAN
REFUSAL TO AGREE IN SEPTEMBER 1974 TO THE 5 PERCENT ADJUSTMENT IN
THE 1974/75 CAP PRICES ACCEPTED AD REFERENDUM BY ERTL. THE GER-
MAN GOVERNMENT FINALLY ACCEPTED THIS PRICE INCREASE IN OCTOBER
BUT ONLY AFTER THE OTHER MEMBER STATES AGREED TO (A) PHASE OUT
CERTAIN NATIONAL AIDS; (B) TAKE INTO ACCOUNT THE 5 PERCENT ADJUST-
MENT OF THE 1974/75 SUPPORT PRICES IN THE FIXING OF THE 1975/76
PRICES; AND (C) INSTRUCT THE COMMISSION TO PRESENT TO THE COUNCIL
A STOCKTAKING OF THE CAP BEFORE THE END OF FEBRUARY 1975. THE
COMMISSION HAS NOW MET THIS DEADLINE.

4. THE REPORT WAS PREPARED BY A TASK FORCE, HEADED BY COMMISSION
SECRETARY-GENERAL NOEL, ON WHICH ALL DIRECTORATES GENERAL
OF THE COMMISSION WERE REPRESENTED. ALTHOUGH LARDINOIS TOLD THE
PRESS ON FEBRUARY 27 THAT THE AGRICULTURAL DIRECTORATE WAS ONLY
MODESTLY REPRESENTED ON THE TASK FORCE, THE REPORT ITSELF REVEALS
HIS GUIDING HAND AS WELL AS THE INFLUENCE OF THE BRITISH
COMMISSIONERS. THE FIRST TWO PARTS OF THIS 58-PAGE DOCUMENT
CONSIST OF A BALANCE SHEET WHICH COMMENTS ON THE STRENGTHS, AND
WEAKNESSES, OF THE CAP. THE THIRD AND FINAL PART SETS OUT
RECOMMENDATIONS FOR IMPROVING THE FUNCTIONING OF THE CAP. THIS
PART CONTAINS NO GREAT SURPRISES, BUT DOES INCLUDE SOME INTER-
ESTING POINTS, PARTICULARLY REGARDING SURPLUS DISPOSAL AND EXPORT
POLICY. THE REPORT WILL BE TRANSMITTED BY AIRGRAM. ITS HIGH-
LIGHTS ARE GIVEN BELOW.

5. GENERAL. NOT SURPRISINGLY, THE COMMISSION CONCLUDES THAT PRICE
SUPPORT SHOULD REMAIN THE PRINCIPAL INSTRUMENT FOR IMPROVING FARM
INCOMES. THE COMMISSION RECOGNIZES, HOWEVER, THAT PRICE POLICY
ALONE IS INCAPABLE OF RESOLVING ALL THE PROBLEMS OF AGRICULTURAL
INCOMES. IT RECOMMENDS, THEREFORE, THAT PRICE POLICIES BE ACCOM-
PANIED BY ACTIVE IMPLEMENTATION OF STRUCTURAL REFORM MEASURES AS
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WELL AS SOCIAL AND REGIONAL POLICIES. THE COMMISSION STATES THAT
DIRECT INCOME AIDS MAY BE NECESSARY IN CERTAIN CASES, IN PARTICULAR
WHEN OTHER POLICIES DO NOT OBTAIN "SATISFACTORY RESULTS." THE
COMMISSION DOES NOT, HOWEVER, MAKE DIRECT REFERENCE TO ANY DEFICIENCY
PAYMENT SYSTEM.

6. COMMODITIES. TO REACH A BETTER EQUILIBRIUM BETWEEN SUPPLY AND
DEMAND, PARTICULARLY FOR DIARY PRODUCTS, GRAINS, AND SUGAR, THE

COMMISSION SUGGESTS THE FOLLOWING GUIDELINES: (A) BETTER PRICE RELATIONSHIPS AMONG PRODUCTS, (B) CO-RESPONSIBILITY OF PRODUCERS FOR SURPLUSES, AND (C) STOCKING POLICIES.

7. THE SUGGESTED GUIDELINE ON PRICE RELATIONSHIPS APPEARS TO BE AIMED PRIMARILY AT GRAINS. IN THIS SECTOR, THE COMMISSION REITERATES THE SUGGESTION MADE IN ITS 1973 "MEMORANDUM ON IMPROVEMENT OF THE CAP" THAT SUPPORT PRICES FOR THE VARIOUS GRAINS TAKE INTO ACCOUNT NUTRITIVE VALUES. THE COMMISSION PROBABLY HAS IN MIND HERE INCREASING FEEDGRAIN PRICES RELATIVE TO THE SUPPORT PRICE FOR SOFT WHEAT. THE COMMISSION ALSO SUGGESTS ABOLISHING DEFINITELY DENATURING PREMIUMS FOR WHEAT.

8. THE COMMISSION SUGGESTS AN "ACTIVE STOCKING POLICY" FOR GRAINS, SUGAR, AND SKIM MILK POWDER. THE GOAL OF SUCH A POLICY WOULD BE TO ASSURE SUPPLIES AND TO MEET INTERNATIONAL OBLIGATIONS. SUCH A POLICY, THE COMMISSION EXPLAINS, WOULD NOT BE INTENDED TO DEAL WITH STRUCTURAL SURPLUSES AS IT IS AT PRESENT.

9. THE SUGGESTION ON CO-RESPONSIBILITY OF PRODUCERS FOR SURPLUSES IS DIRECTED AT MILK PRODUCERS. IN ITS 1973 MEMO, THE COMMISSION BROUGHT UP THE SAME SUGGESTION AND, FOR IMPLEMENTING IT, RECOMMENDED A TAX ON MILK DELIVERIES. THIS RECOMMENDATION WAS NOT WELL RECEIVED IN THE COUNCIL. CONSEQUENTLY THE COMMISSION HAS NOW TAKEN A SOMEWHAT DIFFERENT APPROACH. IT RECOMMENDS THAT DAIRY SUPPORT PRICES BE APPLIED IN TWO STAGES DURING THE SEASON (AS THE COUNCIL HAS ALREADY DECIDED FOR 1975/75). THE FIRST PRICE CHANGE WOULD TAKE PLACE AT THE BEGINNING OF THE SEASON, AND THE SECOND, IN THE FALL. THIS LATTER CHANGE, HOWEVER, WOULD NOT BE AUTOMATICALLY APPLIED BUT RATHER WOULD DEPEND ON EXISTING PRODUCTION CONDITIONS, PARTICULARLY IN REGARD TO THE EXISTENCE OF STOCKS AND MILK PRICE/FEED COST RATIOS.

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10. THE COMMISSION'S SUGGESTIONS CONCERNING BEEF ARE VERY GENERAL AND VAGUE. THE BASIC RECOMMENDATIONS ARE FOR A MORE FLEXIBLE INTERVENTION SYSTEM AND AN IMPROVED MARKET INFORMATION SYSTEM. ALSO, THE COMMISSION CONSIDERS THAT, IN APPLYING VARIOUS SUPPORT MEASURES, ACCOUNT SHOULD BE TAKEN OF THE VARYING CHARACTERISTICS OF BEEF PRODUCTION (FEED LOTS, CULLING OF DAIRY HERDS, ETC).

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11. SURPLUS DISPOSAL. THE COMMISSION RECOGNIZES THAT THE DISPOSAL OF SURPLUSES ON THE WORLD MARKET CAN PROVOKE CERTAIN (UNSPECIFIED) DIFFICULTIES. PROBABLY IN RESPONSE TO UK SUGGESTIONS, THE COMMISSION GOES ON TO SUGGEST THAT EC CONSUMERS SHOULD BE ABLE TO BENEFIT FROM SURPLUSES. IN THIS CONNECTION, THE COMMISSION EMBRACES CONSUMER SUBSIDIES AS A MEANS OF ACHIEVING INCREASED DOMESTIC UTILIZATION OF SURPLUS PRODUCTS. THE COMMISSION RECOMMENDS THAT COMMUNITY FINANCING OF SUCH SUBSIDIES BE LIMITED BY THE ALTERNATIVE COSTS OF DISPOSING OF SURPLUSES OF THE PRODUCT IN QUESTION BY "CLASSICAL MEANS" (EXPORTS AIDED BY LARGE SUBSIDIES).

12. EXPORT POLICY. THE COMMISSION CONSIDERS THAT EC EXPORTERS SHOULD BE ABLE TO ENGAGE IN LONG-TERM CONTRACTS WITH THIRD COUNTRIES SEARCHING FOR SUPPLY SECURITY. CHANGES IN CAP POLICY TO ENABLE SUCH CONTRACTS, HOWEVER, ARE NOT SPELLED OUT. AT HIS PRESS CONFERENCE, LARDINOIS SAID THAT HE WILL BE VISITING ISRAEL AND ALGERIA SOON TO DISCUSS THE POSSIBILITY OF SUCH LONG-TERM CONTRACTING.

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13. EXPORT SUBSIDIES. THE COMMISSION RECOMMENDS THAT THE COMMUNITY RELY MORE ON COMPETITION AMONG EXPORTERS IN FIXING THE LEVEL OF SUBSIDIES (I.E., A TENDERING SYSTEM AS HAS ALREADY BEEN IMPLEMENTED

FOR GRAINS). ALSO, THE EC SHOULD SEEK GREATER STABILITY IN TRADE FLOWS AND SHOULD EMPHASIZE AS WELL ADJUSTMENT OF SUBSIDIES TO THE MARKET SITUATION.

14. FOOD AID. THE COMMISSION PROPOSES THAT EC FOOD AID INCLUDE NOT ONLY GRAIN BUT ALSO ANIMAL PRODUCTS (DAIRY PRODUCTS).

15. MONETARY COMPENSATORY AMOUNTS. THE COMMISSION POINTS OUT THAT THE SYSTEM OF MONETARY COMPENSATORY AMOUNTS (MCA'S) WAS CONCEIVED AS A TEMPORARY MEASURE TO DEAL WITH CURRENCY FLUCTUATIONS. THE EXISTING SYSTEM HAS DISTORTED COMPETITION AND UPSET THE PRINCIPLE OF MARKET UNITY. THE COMMISSION STATES THAT IT WILL MAKE PROPOSALS FOR RULES GOVERNING THE FUTURE DEVELOPMENT OF THE MCA SYSTEM.

16. NATIONAL AIDS. THE COMMISSION INTENDS TO DRAW UP AN INVENTORY OF NATIONAL AIDS AND TO PROPOSE CRITERIA TO GOVERN THE GRANTING OF SUCH AIDS AND THEIR CONSISTENCY WITH THE TREATY OF ROME.

17. SUPPLY SECURITY. THE COMMISSION CONCLUDES THAT SECURITY OF SUPPLY (I.E., SELF-SUFFICIENCY) HAS BEEN FOR THE MOST PART GUARANTEED FOR PRODUCTS INTENDED FOR HUMAN CONSUMPTION. FEEDSTUFFS, HOWEVER, IS ANOTHER STORY. THE EC MUST OBTAIN 80 PERCENT OF ITS CONCENTRATED PROTEIN SUPPLIES AND 50 PERCENT OF ITS CORN SUPPLIES FROM THIRD COUNTRIES. THE EC, IN THE COMMISSION'S OPINION, SHOULD DIVERSIFY ITS SOURCES OF SUPPLY OF THESE PRODUCTS.
END UNCLASSIFIED.

18. BEGIN LIMITED OFFICIAL USE. WE BRIEFLY DISCUSSED THE STOCKTAKING REPORT WITH NOEL, WHO HEADED THE COMMISSION GROUP THAT DREW IT UP. NOEL THINKS THAT THE REPORT STRIKES A REALISTIC BALANCE BETWEEN THE COMMUNITY'S INTEREST IN PRESERVING THE ESSENTIALS OF THE CAP AND ADAPTING IT TO PRESENT-DAY REALITIES. HE SAID IT CONTAINS A NUMBER OF "MODEST" SUGGESTIONS FOR INNOVATION. HE ADDED THAT RABOT, THE DIRECTOR GENERAL FOR AGRICULTURE, HAD TRIED TO MINIMIZE HIS OWN INVOLVEMENT IN THE EXERCISE AND HAD CONGRATULATED NOEL ON PRODUCING A FAIRLY FLEXIBLE, AND SENSIBLE PAPER. (AS INDICATED ABOVE, LIMITED OFFICIAL USE

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HOWEVER, THE REPORT'S CONTENT REFLECTS LARDINOIS' INPUT.) RABOT THOUGHT IT WAS BETTER AND MORE LIBERAL THAN GERMAN GOVERNMENT PAPERS--EVEN THOUGH IT WAS SCHMIDT WHO HAD ORIGINALLY INSISTED ON THE REVIEW. NOEL DOES NOT EXPECT THAT THERE WILL BE A MAJOR COUNCIL DEBATE AND ACTION ON THE DOCUMENT ANY TIME SOON. IN HIS VIEW, THIS WOULD SERVE NO ONE'S INTEREST AT PRESENT. IN PARTICULAR, IT COULD BE COUNTER-PRODUCTIVE FROM THE STANDPOINT OF UK RENEGOTIATION. NOEL BELIEVES THAT AN ATTEMPT TO COME TO GRIPS WITH CAP REFORM AS A WHOLE NOW COULD RESULT IN CONTROVERSY. THIS WOULD ONLY DETRACT FROM THE IMPRESSION PEART AND WILSON WANT

TO GIVE THE BRITISH PEOPLE THAT SIGNIFICANT RESULTS IN AGRICULTURE
HAVE ALREADY BEEN SECURED IN RENEGOTIATION.

19. NOEL'S BELIEF IS THAT SOME OF THE SUGGESTIONS IN THE PAPER
WILL ONLY BE TAKEN UP SERIOUSLY IN THE NORMAL COURSE OF COMMUNITY
BUSINESS DURING THE NEXT AGRICULTURAL
PRICE REVIEW WHICH SHOULD BEGIN IN THE FALL. OTHERS, FOR
EXAMPLE, THE LONG-TERM CONTRACT QUESTION--MIGHT BE TAKEN UP
INITIALLY IN THE FRAMEWORK OF EC MEDITERRANEAN POLICY.
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